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MFSA Urges Sector-Wide Alignment to Banking Risk and Capital Disclosure Practices

Call for Improved Consistency and Transparency among Credit Institutions

The Malta Financial Services Authority (MFSA) has issued a formal letter to all the credit institutions, highlighting the importance of adhering to the Pillar 3 disclosure requirements under the Capital Requirements Regulation (CRR). These measures aim to provide more transparent and comparable information to market participants, fostering greater trust in the banking sector.

The Basel III regulatory framework, as implemented in the EU, is built upon three key pillars, with Pillar 3 focused on promoting market discipline through increased public disclosure. These disclosures cover areas like risk management, capital adequacy, leverage and credit exposures. The goal is to provide stakeholders with insight into a bank's risk profile and financial health.

In May 2024, the MFSA distributed a questionnaire to Compliance Officers of Less Significant Institutions (LSIs) to assess their adherence to general disclosure requirements as outlined in the regulation.

The study determined that many institutions have established comprehensive policies and procedures, publishing disclosure information in a timely and accessible manner. The majority of banks also audit their disclosure information before publication.

However, some institutions were found to have discrepancies in their public disclosures, missing semi-annual publications, or having incomplete formal policies and procedures. Additionally, there were instances where disclosure locations on websites were not easily accessible to stakeholders.

To address these issues, the MFSA provided several recommendations, including the development of formal policies, where lacking, adherence to semi-annual disclosure obligations, and ensuring that disclosures are fully accessible. Institutions are also encouraged to consider independent audits of their disclosures to ensure accuracy and reliability.

"Transparency and accountability are crucial components of market confidence. We call on all credit institutions to implement best practices in their Pillar 3 disclosures, as this not only fulfils regulatory obligations but also strengthens trust among investors, regulators, and the public," emphasised Catherine Galea, MFSA's Head of Banking Supervision.

The MFSA encourages all institutions to review and enhance their current practices to ensure full alignment with these expectations, demonstrating their commitment to transparency, accountability, and the highest standards of governance.

About MFSA

The Malta Financial Services Authority (MFSA) is the single regulator of financial services in Malta, covering banks, insurance companies, investment services, trusts and pensions. In 2018, the MFSA became the first European regulator to develop a framework to regulate virtual financial assets. The MFSA's mission, as enshrined in its Strategic Statement, is to enhance its position as an independent, proactive and trustworthy supervisory authority with the main purpose of safeguarding the integrity of markets and maintaining stability within the financial sector, for the benefit and protection of consumers. The MFSA licenses over 2,000 entities to operate in the financial services sector.

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